HOME CAPITAL GROUP INC.

Canada's First Choice Alternative Provider *of* Residential First Mortgages

ANNUAL REPORT 1999

On March 9, 2000 we received Letters Patent continuing Home Savings & Loan Corporation under the Trust and Loan Corporations Act (Canada). As a result, the name of our main subsidiary has been changed from Home Savings & Loan Corporation to Home Trust Company. All financial references in this report refer to Home Savings & Loan Corporation while all profiles, descriptions and directories refer to Home Trust Company.

AT A GLANCE

Home Capital Group Inc. is a holding company, publicly traded on the Toronto Stock Exchange (HCG.B), operating through its federally regulated principal subsidiary, Home Trust Company.

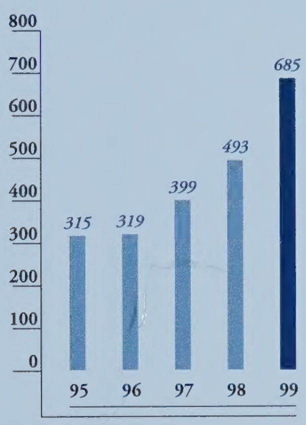
Home Trust is regarded as the first choice alternative provider of residential first mortgages and has developed a market niche by lending to borrowers who may not meet all the lending criteria of the major financial institutions. This burgeoning market consists largely of self-employed entrepreneurs, a sector which has grown significantly in recent years and now represents 18% of the Canadian workforce. With prudent lending policies, an extensive mortgage broker network and strategic alliances with referral institutions, Home Trust is well recognized as a leader in its market niche.

Home Trust also provides deposit investment services, including Certificates of Deposit, Debenture Investment Certificates and Registered Retirement Savings Plans. Offering competitive interest rates and efficient, personal service, Home Trust has developed a broad client base and has working relationships with over 200 deposit brokers.

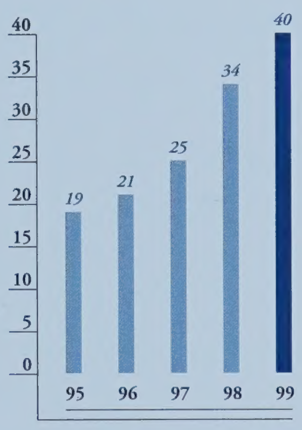
Incorporated in 1977 as a provincially regulated financial institution, Home Savings & Loan Corporation received Letters Patent on March 9, 2000 to be continued as a federally regulated trust company and operate under the name Home Trust Company. Licensed to conduct business across Canada, Home Trust has branches in Alberta, British Columbia and Ontario.

FIVE YEAR REVIEW

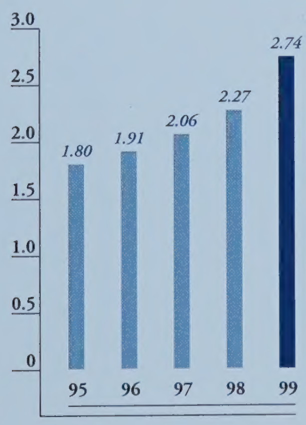
FOR THE YEARS ENDED DECEMBER 31	1999	1998	1997	1996	1995
TOTAL ASSETS	**$ 738,135,137**	538,875,715	434,120,336	346,816,561	340,826,486
MORTGAGES	**639,986,336**	471,841,177	385,872,534	311,783,314	305,938,166
DEPOSITS AND BORROWINGS	**684,868,636**	493,385,830	399,497,379	318,837,657	314,631,121
SHAREHOLDERS' EQUITY	**40,452,857**	33,620,000	25,004,443	20,593,586	19,406,234
REVENUE	**53,020,998**	42,069,017	33,753,574	32,985,080	34,789,510
NET INCOME	**8,081,108**	6,067,432	3,018,482	1,187,352	60,307
BOOK VALUE OF COMMON SHARES	**2.74**	2.27	2.06	1.91	1.80
EARNINGS PER SHARE – Basic	**0.55**	0.46	0.27	0.11	0.01
– Fully Diluted	**0.52**	0.39	0.22	0.09	0.01



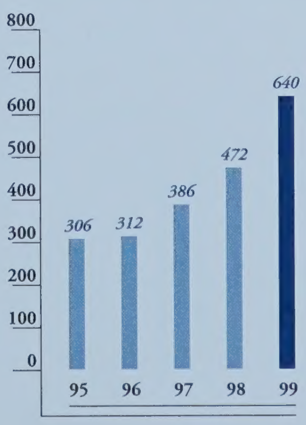
TOTAL DEPOSITS
& BORROWINGS
(000's)



SHAREHOLDERS'
EQUITY
(000's)



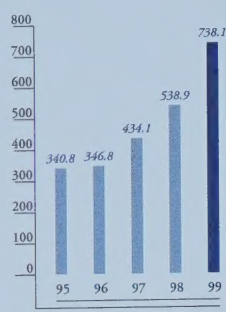
BOOK VALUE OF
COMMON SHARES
(Dollars per Share)



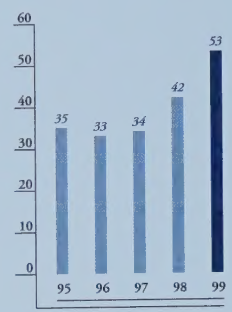
TOTAL
MORTGAGES
(000's)

KEY STATISTICS

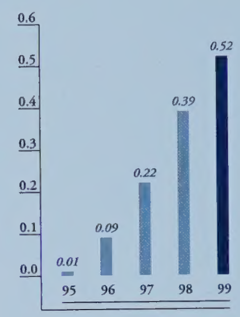
Growth The Company exceeded expectations with asset growth of 37.0%, an increase in revenue of 26.0% and a 33.3% increase in fully diluted earnings per share.



ASSETS
(000'S)

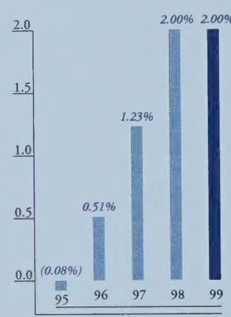


REVENUE
(000'S)

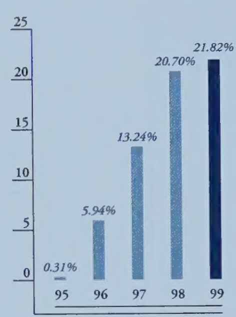


EARNINGS PER SHARE
Fully Diluted

Returns The Company had above average return on assets and equity.

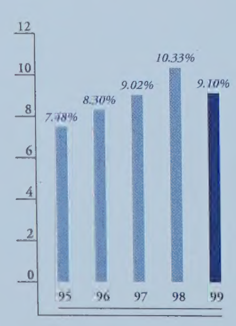


PRE-TAX RETURN
ON ASSETS

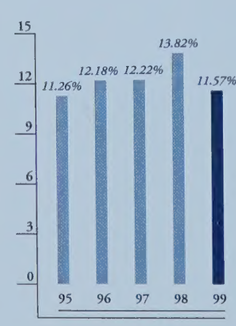


AFTER-TAX RETURN
ON EQUITY

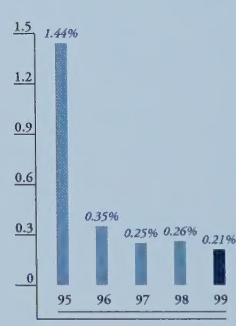
Risk The Company met or exceeded all applicable regulatory and related standards, and maintained a level of impaired mortgages comparable to major financial institutions.



TIER 1 CAPITAL TO
RISK WEIGHTED ASSETS



TOTAL CAPITAL TO RISK
WEIGHTED ASSETS



NET IMPAIRED LOANS
AS A PERCENTAGE OF
MORTGAGE PORTFOLIO

1999 IN REVIEW

1999 OBJECTIVES	PERFORMANCE
FURTHER ENHANCE SHAREHOLDER VALUE	• Asset Growth 37.0% • Net Earnings 33.2% • Book Value increased from $2.27 to $2.74
INTRODUCE A SUSTAINABLE DIVIDEND	• Dividend introduced in February 1999 and maintained quarterly to date at a rate of $0.06 per annum.
CONTINUE THE PRUDENT EXPANSION OF OUR BUSINESS BASE	• Branch offices in leased premises established in Calgary and Vancouver with increased complement of seasoned underwriters. • Regulatory approval received to conduct business across Canada.
CONTINUE TO MINIMIZE RISK	• Continue to exceed all applicable regulatory liquidity and related standards. • Tier I and Total Capital ratios exceeded regulatory requirements. • Net impaired loans reduced to 0.21% from 0.26% in 1998. • General reserve totalling $3.414 million allowance for loan losses.
ACHIEVE A 20 PERCENT INCREASE IN EACH OF ASSETS, EARNINGS AND FULLY DILUTED EARNINGS PER SHARE	• Assets 37.0% • Earnings 33.2% • Earnings per Share 33.3%
MAINTAIN A RETURN ON EQUITY IN THE 20 PERCENT RANGE	• Return on equity of 21.8% versus 20.7% for 1998.
INCREASE OUR COMMUNICATIONS WITH THE INVESTMENT COMMUNITY	• Meetings and presentations to the investment community averaged four per month, approximately double the number of presentations in the previous year.

Fiscal 1999 constituted a record year for Home Capital Group Inc. These results, generated through wholly owned subsidiary Home Trust Company, were realized through the achievement of above average returns on above average growth at below average risk.

With asset growth of 37.0%, mortgage growth of 35.6%, net earnings growth of 33.2% and a 21.8% return on equity, the Company exceeded all previously stated performance objectives.

This record of performance, and our positive outlook for the future, are attributable to the standing of your Company as the leading alternative provider of residential first mortgages to customers who do not meet the particular criteria of conventional financial institutions.

The niche we occupy continues to be a viable and profitable generator of value for all our shareholders. In December of 1999, for example, Statistics Canada reported that the number of self-employed now represents 18% of the total employed workforce, having risen from 1.2 million Canadians in 1976 to 2.5 million. There is evidence that this trend is continuing, and we are well situated to grow right along with it.

TARGETS SET, TARGETS MET

As has been our custom, we want to review our performance of the past year against the objectives we set for your Company in the 1998 annual report. Even more important, and beyond these achievements, we want to review how the strategic initiatives implemented in recent years have positioned us for continued growth and profitability.

The goals we identified for 1999, and your Company's performance in pursuit of those targets, include the following:

• Further enhance shareholder value

As in prior years, our focus remained on rewarding shareholders through the pursuit of above average returns on above average growth at below average risk. This commitment and our traditional prudent approach to business resulted in another four quarters of growth and increasing earnings.

At the same time, we believe that the price of our shares does not adequately reflect the increased

The niche we occupy continues to be a viable and decidedly profitable generator of value for all of our shareholders.

growth and profitability underlying these results. While some small comfort may be derived by our share performance in relation to other deposit taking institutions, we would clearly have preferred greater progress in this area.

We have delivered tangible and increasingly positive results in those areas within our control. However, today's stock market is notable for its uncertainty and shifting investment strategies. Under current market conditions, it is clear that positive earnings have not necessarily raised the price of a company's shares. Still, we strongly believe that our share price will come to reflect the value of our past performance and our excellent future prospects.

We initiated a Normal Course Issuer Bid as a means of ensuring that the market price of our Class 'B' shares more accurately reflects the current value and future prospects of our business.

We will continue to pursue a strategy of 'performing and informing' – delivering positive and increasing results while informing the investment community of our progress, our proven market niche, and our strategy for continued growth and profitability.

- Introduce a sustainable dividend

In February of 1999 we introduced a policy entailing a quarterly dividend of 1.5 cents per share. The first dividend was paid in May and we are committed to the continuation of this policy.

- Continue the prudent expansion of our business base

In 1999 we built our presence in western Canada, initiated activity in Nova Scotia, completed registrations to conduct business across Canada, initiated a change in our legal status and continued to pursue new strategic alliances.

Our Calgary and Vancouver offices became more established through the leasing of proprietary office space, the hiring of additional underwriters, and the generation of business activity that contributed positively to our overall results. These operations met their performance targets for the year, representing some 5% of the Company's new

mortgage business, and we anticipate that volumes in Alberta and British Columbia will represent some 10% of the Company's new business in 2000.

Our expansion into Halifax proceeded in the same prudent manner as our initial activity into each of Alberta and British Columbia.

We also positioned ourselves for further expansion across Canada, obtaining regulatory approval to conduct business in Manitoba, New Brunswick, Prince Edward Island, Saskatchewan and Newfoundland.

Effective March 9, 2000, we received Letters Patent continuing the Company under the Trust and Loan Companies Act (Canada). Home Savings & Loan Corporation, a provincially regulated savings and loan company will thus be converted to Home Trust Company, a federally regulated trust company. This is not just a change in legal personality, but offers considerable business advantages as well. We believe that consumers have a greater awareness of the nature and activity of a 'trust' company as opposed to a 'savings and loan' company. In addition, this change will enable us to examine other niche markets not currently available to us, markets not fully served by larger conventional financial institutions.

In short, we believe that this change will enhance our ability to provide customers with a range of complementary services beyond our present activities.

We explored and initiated transactions and strategic alliances with other financial institutions. We acquired mortgage portfolios from Clarica Life Insurance and from CIBC Trust. Our referral arrangement with the Canadian Imperial Bank of Commerce produced approximately 6% of our total mortgage volume for 1999. Subsequent to year-end, we entered into an agreement with Scotiabank for a pilot project in Ontario in which we would be designated the preferred alternative provider of residential first mortgages for its customers.

The Company engaged Lehman Brothers to provide advisory services, exploration of e-business opportunities, corporate financing and consideration of future ventures and possible alliances.

- Continue to minimize risk

Our risk weighted Tier 1 and Total Capital ratios experienced a slight decline as a result of the composition of the mortgage portfolios acquired during the year. We continued to meet or exceed all applicable regulatory liquidity and related standards during the past year.

Strategic initiatives implemented in recent years have positioned us for continued growth and profitability.

The conversion to a federally regulated trust company will enhance our ability to provide customers with a range of services.

Another indicator of risk is the management of net impaired loans. For the year ended December 31, 1999, the number of net impaired loans declined to 0.21% of the gross mortgage portfolio, compared to 0.26% the previous year.

The composition of our mortgage business continued to reflect the Company's prudent approach to risk. Residential properties accounted for 95.2% of the portfolio while first mortgages accounted represented 99.8% of our lending activity.

During the latter part of 1999 we adopted a higher liquidity position than normal, as part of our Year 2000 contingency plan. This step, together with the completion of all testing and other steps associated with Year 2000 preparedness, ensured that we were ready to enter the new millennium with our customers. No untoward occurrences were experienced at year's end, and we have returned to a more traditional liquidity position.

- Achieve a 20 percent increase in each of assets, earnings and fully diluted earnings per share

We exceeded each of these objectives. Assets grew by 37.0%, net earnings rose by 33.2%, and fully diluted earnings per share increased from $0.39 to $0.52, an increase of 33.3%.

- Maintain return on equity in the 20 percent range

Once again we exceeded our goal, with return on equity of 21.8%.

- Increase our communications with the investment community

We significantly increased the number of meetings with, and presentations to, members of the investment community during 1999. By averaging approximately one information session per week, we increased our meetings with representatives of relevant institutions by 100% over the previous year. We also extended the geographic reach of our investor presentations by meeting with representatives from companies in Alberta, British Columbia and Quebec as well as Ontario.

A STRATEGIC FOUNDATION

Our goals for the current year reflect a continued focus on business fundamentals and the growth patterns established in recent years. We plan to achieve double digit increases in asset growth and in both basic and fully diluted earnings per share. We will work to maintain our return on equity in the 20% range. And, as always, we will continue to minimize risk.

But our anticipated success in 2000 plus the solid performance of 1999 and preceding years represent more than the achievement of immediate tactical objectives. More importantly, they also reflect the strategic foundation from which your Company will pursue continued growth, profitability and value.

In pursuit of these goals, your Company was further strengthened by the appointment of two new directors during the past year. Bringing considerable experience to our board are Sheila L. Ross, partner of the international firm TMP Worldwide Executive Search and the Hon. William G. Davis, former Premier of Ontario, now counsel to the law firm, Torys, and board member of a number of leading corporations. We welcome the knowledge and insight that Ms. Ross and Mr. Davis bring to our board and look forward to a long and positive relationship.

LOOKING AHEAD

During the past decade the Company identified and implemented the actions required to remain competitive and profitable in the fast-changing financial services marketplace. By any objective reckoning we have established the solid performance platform that is the prerequisite for future strategic success. The elements of this business strategy include:

- the expansion of our geographic focus from a regional to a national Company.
- the development of our business base through referral alliances with other financial institutions and through continuing relationships with our valued mortgage broker network.
- the widening of our service offerings through continuation as a federal trust company.
- the pursuit of e-business opportunities through our agreement with Basis 100 Inc., enabling us to originate mortgage applications through its national and multi-lender website, as well as through E-Trade Canada's popular portal.
- the consideration of new products, services and ventures with the counsel of Lehman Brothers.

The positive outlook shaped by these strategies has been made possible by the initiatives and results generated by a great many people. On behalf of the Board of Directors we wish to acknowledge the efforts and commitment of our shareholders, customers, mortgage brokers and strategic partners. We are especially grateful for the important contributions of our personnel and recognize the significance of their dedication and integrity.

Their commitment has enabled your Company to successfully undertake two significant feats simultaneously: 'minding the store' on an increasingly profitable basis from year-to-year while developing and implementing the strategies that will position us for further success and the continued generation of value for our shareholders.

Wm. A. Dimma

William A. Dimma
Chairman of the Board

Gerald M. Soloway

Gerald M. Soloway
President and Chief Executive Officer

MANAGEMENT'S DISCUSSION & ANALYSIS

This section of the Annual Report provides a detailed discussion and analysis of the financial condition and results of operations of Home Capital Group Inc. (the "Company") for the years ended December 31, 1999 and 1998. The discussion and analysis relates primarily to the Company's subsidiary, Home Savings & Loan Corporation ("Home Savings") which provides residential first mortgage lending and deposit taking services. It also provides a review of the Company's risk management policies relating to the credit, liquidity, interest rate and capital risks that are applicable to the Company's balance sheet.

FINANCIAL HIGHLIGHTS

FOR THE YEARS ENDED DECEMBER 31 (000'S)	1999	1998	1997	1996	1995
RESULTS OF OPERATIONS					
Net income	**$ 8,081**	6,067	3,018	1,187	60
Basic earnings per share	**0.55**	0.46	0.27	0.11	0.01
Return on average shareholders' equity	**21.82%**	20.70%	13.24%	5.94%	0.31%
Net investment margin (taxable equivalent basis)	**3.20%**	3.30%	3.40%	3.60%	2.80%
Fee income and gains on sale of investments to net revenue	**16.71%**	17.16%	15.90%	11.82%	11.89%
Productivity ratio (non-interest expense as a % of net revenue)	**41.38%**	42.46%	46.48%	43.39%	49.66%
FINANCIAL CONDITION					
Investments	**$ 731,603**	534,102	429,385	341,606	334,573
Deposits and other borrowings	**$ 684,869**	493,386	399,497	318,838	314,631
Credit quality					
Provision for loan losses as a % of total loans	**0.09%**	0.21%	0.86%	1.84%	1.85%
Net impaired loans as a % of total loans	**0.21%**	0.26%	0.25%	0.35%	1.44%
Allowances for loan losses as a % of gross impaired loans	**210.09%**	208.51%	197.60%	160.21%	62.99%

INCOME STATEMENT HIGHLIGHTS FOR 1999

The Company continued to produce strong earnings during 1999, with net income increasing from $6,067,432 ($0.46 per share) in 1998 to $8,081,108 ($0.55 per share) in 1999, an increase of 33.2%. The return on average shareholders' equity was again above average for deposit taking financial institutions, resulting in a return of 21.82%, up from the 1998 return of 20.70%. A number of factors contributed to this strong performance:

- The mortgage portfolio increased by 36%, from $472 million in 1998 to $640 million in 1999 (22% in 1998). There was also a corresponding 39% increase in deposits and borrowings (24% in 1998), from $493 million in 1998 to $685 million in 1999. The overall spread between the mortgage and deposit portfolios decreased from 3.12% in 1998 to 3.00% in 1999. This decline occurred in the last quarter due to the purchase of seasoned mortgage portfolios at interest rates below our new business average.

- The Company is required for liquidity purposes to maintain a certain amount of its assets in short-term investments, namely cash, treasury bills, bankers' acceptances and government bonds. During the year, the Company maintained an average holding of liquid assets (excluding bonds) in the $26.0 million range ($26.1 million in 1998). During the year, the Bank of Canada prime rate averaged 6.43%, down

from the 6.65% averaged in 1998. As a result, the average return declined from 4.85% in 1998 to 4.67% in 1999. This resulted in other interest income decreasing slightly by 0.2% during the year.

- Market gains realized on the redemption of bonds during 1999 were down from 1998, and in addition, the average return on the bond holdings also decreased. This resulted in the overall average return decreasing from 8.7% in 1998 to 5.6% in 1999. However, the average holdings of government bonds increased substantially from $11.4 million in 1998 to $21.8 million in 1999, resulting in a small increase in income year over year.

- The stock portfolio increased substantially during the year. Average holdings of stock increased from $27.7 million in 1998 to $40.1 million in 1999. Dividends are received on a tax-free basis, therefore the rate of return on the portfolio is expressed on a taxable equivalent basis. Since the majority of the stock portfolio is in preferred shares and the new issue interest rates are influenced by the Bank of Canada prime rate, the average return decreased slightly from 10.4% in 1998 to 10.0% in 1999. The increase in average holdings resulted in a substantial increase in dividend income during the year.

- Fees and other income, net of servicing costs, rose by 30% in 1999 (26% in 1998). This class of income is generally related to the level of activity in the mortgage portfolio. Excluding the mortgage portfolios that were purchased during the year (on which fees were not received) the amount of new mortgage advances increased by 28% year over year. The remainder of the increase relates to servicing fees on the mortgage portfolio.

- The mortgage provision declined by $0.4 million during the year, or 40% ($0.6 million in 1999, $1.0 million in 1998). The company has continued to emphasize residential first mortgage lending as its core business. This strategy, employed since mid-1990, has resulted in actual losses incurred on delinquent mortgages declining substantially over the last four years. As a result, the amount of the mortgage provision, which has both a general and specific component, has also decreased year over year.

- Operating expenses increased by 19.3% during the year (11.5% in 1998). Since the majority of expenses are volume related, a company's efficiency is best measured by its productivity ratio. Productivity ratio is defined as operating expenses as a percentage of its net revenue. The company's productivity ratio improved from 42.5% in 1998 to 41.4% in 1999.

The company conducted business in Alberta and British Columbia during all of 1999. By the last quarter of 1999, branch offices had been established in both provinces. These new market areas have begun to contribute positively to the overall results of the Company.

BALANCE SHEET HIGHLIGHTS FOR 1999

Assets increased by $199.3 million, or 37% over 1998 ($105 million in 1998, or 24% over 1997). This was primarily the growth in the mortgage portfolio of $168.2 million ($86 million in 1998). This growth was both internally generated, which showed consistent growth during the year, and in addition there were mortgage portfolio purchases. Investments (consisting of bonds and stock) increased by $26.3 million during the year, and the remaining

$4.8 million increase was made up primarily of cash and short-term deposits, which increased from $17.1 million in 1998 to $20.2 million in 1999.

Deposits and borrowings increased by $191.5 million during the year, or 39% ($94 million in 1998, or 24% over 1997). A principal payment of $0.5 million was made on the senior term loan during the year. Due to the market value deficiency in the investment portfolio, the deferred tax credit increased by $1.5 million as a result of the mark to market tax rules. Dividends payable were $0.2 million as the Company declared a dividend in the last month of the year. Capital stock and contributed surplus decreased by $0.4 million, as a result of the conversion of options and the repurchase of stock through a normal course issuer bid. This, combined with an increase in retained earnings of $7.2 million, funded the increase in assets during the year.

EARNINGS OVERVIEW

Net Investment Income

An analysis of net investment income, as a percentage of average total assets and total liabilities, is presented in the following table. Net investment income is the difference between income earned on investments and the interest paid on deposits to fund those assets. The dividend income has been converted to a tax equivalent basis for comparison purposes.

NET INVESTMENT INCOME

FOR THE YEARS ENDED DECEMBER 31 (000's)	1999 Average Balance	1999 Income/ Expense	1999 Average Rate	1998 Average Balance	1998 Income/ Expense	1998 Average Rate
ASSETS						
Cash and cash equivalents	$ 26,017	1,216	4.7%	$ 26,151	1,269	4.9%
Investments	60,869	3,452	5.7%	39,482	2,580	6.5%
Mortgages	555,914	44,529	8.0%	428,857	35,025	8.2%
Taxable equivalent adjustment		1,796	–		1,279	–
Total earning assets	642,800	50,993	7.9%	494,490	40,153	8.1%
Other assets	5,653	–	0.0%	4,755	–	0.0%
TOTAL ASSETS	$648,453	50,993	7.9%	$499,245	40,153	8.0%
LIABILITIES AND SHAREHOLDERS' EQUITY						
Bank and senior term loan	$ 9,418	815	8.7%	$ 7,895	653	8.3%
Deposits and borrowings	589,127	29,419	5.0%	456,989	22,666	5.0%
Convertible subordinated debentures	–	–	–	1,137	131	11.5%
Total interest bearing liabilities	598,545	30,234	5.1%	466,021	23,450	5.0%
Other liabilities	3,092			2,357		
Shareholders' equity	37,036			29,312		
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$638,673	30,234	4.7%	$ 497,690	23,450	4.7%
NET INVESTMENT INCOME (taxable equivalent basis)		$ 20,759			$ 16,703	
NET INVESTMENT MARGIN (net investment income divided by average total assets)			3.2%			3.3%
NET INVESTMENT SPREAD (average rate of return on earning assets less average rate paid on interest bearing liabilities)			2.8%			3.1%

Analysis of the Change in Net Investment Income
As indicated in the table on the previous page, the net investment income, on a taxable equivalent basis, increased by $4,056,000 in 1999 over 1998 ($3,131,000 in 1998 over 1997). This increase was a combination of a number of factors, as discussed below.

Interest rates were on the decline for most of the year. The Bank of Canada prime lending rate started the year at 6.75%, decreased by 25 basis points in April and again in May, but increased by 25 basis points in November to end the year at 6.50%. The average net interest return between mortgages and deposits was maintained for the first nine months, but declined in the last quarter due to the purchase of mortgage portfolios which had a lower average interest rate than new mortgages advanced, resulting in a small decline in spread in 1999 over 1998. The average net interest return was 3.0% in 1999 (mortgages 8.0%, deposits 5.0%), compared to 3.2% in 1998 (mortgages 8.2%, deposits 5.0%). This interest spread, combined with the 36% increase in the mortgage portfolio, resulted in an overall improvement to net investment income of $2,719,000 ($1,713,000 in 1998). At year-end, the average interest rate for mortgages was 8.35% (8.34% in 1998), while the average rate for deposits was 5.35% (5.22% in 1998). The spread at year-end between mortgages and deposits decreased from 3.12% in 1998 to 3.00% in 1999. During the year, the Company took advantage of its unused borrowing capacity and purchased $84 million in mortgages from Clarica Life Insurance Company and CIBC Trust. The effect of purchasing these well-seasoned portfolios decreased the overall mortgage spread by 14 basis points. However, upon renewal, it is anticipated that the spread will be improved on this portfolio.

As part of the Company's regulatory liquidity requirements, a minimum of 20% of the next 100-day maturities must be invested in a liquid type investment. The Company both maintains a bank balance and invests excess cash in short-term investments, comprised of treasury bills, bankers' acceptances and bonds to fulfill the statutory liquidity requirement. As the Company continues to grow, the amount required to be in the form of liquid investments will also increase.

During the year, the average bank balance was $2.9 million ($2.2 million in 1998) and the average short-term investment balance was $23.2 million ($23.9 million in 1998). The declining interest rates during the year caused the average return to decrease from 4.85% in 1998 to 4.67% in 1999, resulting in a decrease in net investment income by $53,000.

Average holdings of bonds increased substantially during the year from $11.4 million to $21.8 million. Since bonds are tied into the Bank of Canada prime lending rate, the average interest rate return decreased from 6.08% in 1998 to 5.51% in 1999. Gains realized on the sale of bonds were $20,000 in 1999, compared to $299,000 in 1998. These two factors resulted in the overall rate of return on bonds to decrease from 8.71% in 1998 to 5.60% in 1999; however, due to the increase in average holdings during the year, the net increase to investment income was $229,000.

The common and preferred stock portfolio continued to increase during the year. The average holdings of common shares increased from $2.0 million to $2.4 million, and the average holdings of preferred

shares increased from $25.6 million to $37.7 million. Despite a decrease in the average return, on a taxable equivalent basis, from 10.36% in 1998 to 10.05% in 1999, there was an increase to the net investment income of $1,161,000, year over year.

Average total assets increased substantially from $499.2 million in 1998 to $648.5 million in 1999. This increase in assets, and maintaining the interest spread between assets and liabilities, resulted in an overall improvement of net investment income from $16.7 million in 1998 to $20.8 million in 1999. Average shareholders' equity increased by $7.7 million during the year ($6.5 million in 1998). This had a small positive effect on net investment income since there is no interest cost incurred on shareholders' equity.

Fees and Other Income

Fees and other income increased from $2,770,000 in 1998 to $3,594,000 in 1999, an increase of 30% (26% in 1998). The majority of the fees that are generated are based on new mortgage activity. Total mortgages advanced during 1999, net of mortgage purchases, increased to $278 million in 1999 from $217 million 1998 to, an increase of 28%. Other fees are generated from the administration of the mortgage portfolio.

Operating Expenses

Operating expenses increased from $7,906,000 in 1998 to $9,429,000 in 1999, an increase of $1,523,000, or 19.3%. This compares to an increase in operating expenses of $817,000, or 11.5% from 1997 to 1998. The major components of the increase in operating expenses in 1999 are salaries and benefits, commissions on deposit certificates, other professional fees, capital tax and legal fees.

Salaries and benefits increased by $845,000, or 20%, to $4,125,000 in 1999 ($3,280,000 in 1998). This expense represents 43.7% of total operating expenses (41.5% in 1998). During the year, the overall staff was increased from 55 to 67 people. The main additions were made in the administrative positions to accommodate the Company's growth. In addition, we also expanded our offices in both Calgary and Vancouver. It is anticipated that the projected growth in 2000 can be accommodated with minimal additions to the present staffing.

Commissions paid to deposit brokers increased by $354,000 during the year or 43.0% ($1,175,000 in 1999; $821,000 in 1998). This expense is strictly volume driven. The Company accepts deposits directly from the public at its three office locations in Toronto, Hamilton and St. Catharines. The company generated funds accounted for 41%, or $275 million, of the total deposits received (46% or $226 million in 1998). The remainder is raised through a deposit broker network throughout Ontario. This accounted for 59%, or $389 million, of the total deposits received (54% or $263 million in 1998). The increase in the percentage amount raised through deposit brokers is a result of the purchase of $84 million in mortgage portfolios. The need for large amounts of cash required on closing in a relatively short period of time resulted in the Company sourcing these deposits primarily from the broker network. If this $84 million special purchase was excluded in the fiscal funding requirements, the percentage raised internally would have been maintained at 47%. A commission is paid on deposits received and the amount of the commission is based on the term of the deposit. The amount paid is amortized over the term of the deposit.

During the course of the year, the Company hired professional consultants to assist in strategic initiatives. The $84 million mortgage portfolio purchase required a significant amount of due diligence to be performed on the Company's behalf. The Company is also undergoing a strategic review of its information systems. In addition, the Company has made significant strides in positioning itself to benefit from

future e-business opportunities. The visibility of Home Savings' website has increased and traffic to the site has increased as a result. Other professional fees paid during the year increased from $61,000 in 1998 to $223,000 in 1999, an increase of $162,000.

Capital tax is an Ontario tax that is based on the level of capital in a company. Shareholders' equity in Home Savings increased by $7.2 million from net income during the year. As a result, the overall capital tax base increased during the year and the related expense has increased from $263,000 to $369,000, an increase of $106,000.

The Company completed registrations to do business in every province except Quebec during the year. The Company also applied to become a Federal Trust Company. As a result, legal fees incurred increased from $42,000 in 1998 to $146,000 in 1999, an increase of $104,000.

Increases in other operating expenses that are mainly volume driven were offset by savings in a number of areas including shareholder information, deposit insurance and computer services. Overall, the Company had an efficiency ratio (operating expenses as a percentage of net revenue) of 41.4% in 1999. This is an improvement over the 42.5% efficiency ratio in 1998, and both years compare favourably to other deposit taking financial institutions.

BALANCE SHEET REVIEW

The Company's growth momentum continued during fiscal 1999. Total assets increased by $199 million to $738 million at December 31, 1999, an increase of 37% over 1998. This compares to 1998 when assets increased by $105 million or 24% over 1997.

Investments

Total investments amounted to $731.6 million at December 31, 1999, an increase of $197.5 million (37.0%) over 1998. This increase relates largely to the increase in the mortgage portfolio of $168.5 million ($85.9 million in 1998), which represents 87.9% of total investments (88.3% in 1998).

FOR THE YEARS ENDED DECEMBER 31 (000's)

						% Increase (Decrease) 1999 vs 1998	1998 vs 1997
	1999	1998	1997	1996	1995		
Cash and cash equivalents	$ 20,164	17,101	13,765	1,172	16,565	17.9	24.2
Investments	71,453	45,160	29,747	28,650	12,070	58.2	51.8
Gross mortgage loans							
Residential	613,938	460,263	373,964	293,672	279,902	33.4	23.1
Commercial	7,426	6,140	5,480	7,786	9,278	20.9	12.0
Other non-residential	22,036	8,541	9,365	12,804	20,367	158.0	(8.8)
	643,400	474,944	388,809	314,262	309,547	35.5	22.2
Allowance for losses	3,414	3,103	2,936	2,478	3,609	10.0	5.7
	639,986	471,841	385,873	311,784	305,938	35.6	22.3
Total	$ 731,603	534,102	429,385	341,606	334,573	37.0	24.4

Cash and cash equivalents increased from $17.1 million to $20.2 million at December 31, 1999. These instruments, together with government bonds, are included as part of the Company's statutory liquidity requirements.

Investments represent 9.8% of the Company's total assets at December 31, 1999, as compared to 8.5% one year ago. These investments are made up of bonds (provincial and federal government, and corporate), and common and preferred stocks. The Company maintained its investment strategy to take advantage of higher yields, and total investments increased from $45.2 million in 1998 to $71.5 in 1999. The mortgage portfolio increased by $168.5 million during 1999 ($85.9 million in 1998 over 1997). The mortgage portfolio represents 87.9% of the total assets at December 31, 1999 (88.9% in 1998). The Company continues to consider residential first mortgages as its core business.

Investments/Securities

Investments consist of government guaranteed bonds, corporate bonds, and common and preferred stocks.

	As at December 31,1999			As at December 31,1998		
FOR THE YEAR ENDED DECEMBER 31 (000'S)	**Carrying Value**	**Market Value**	**Excess (Deficiency) Market Over Carrying Value**	Carrying Value	Market Value	Excess (Deficiency) Market Over Carrying Value
Government and Corporate bonds	**$ 23,922**	**22,815**	**(1,107)**	$ 12,292	12,268	(24)
Stocks						
Preferred						
Retractable	**23,064**	**22,272**	**(792)**	12,586	12,864	278
Non-retractable	**2,756**	**2,586**	**(170)**	2,080	1,888	(192)
Floating rate straights	**3,527**	**3,376**	**(151)**	3,501	3,522	21
Mutual funds	**2,754**	**2,405**	**(349)**	2,702	2,483	(219)
Convertible	**12,417**	**12,204**	**(213)**	9,646	9,930	284
	44,518	**42,843**	**(1,675)**	30,515	30,687	172
Common	**3,013**	**2,025**	**(988)**	2,353	2,034	(319)
Total stock portfolio	**47,531**	**44,868**	**(2,663)**	32,868	32,721	(147)
Total	**$ 71,453**	**67,683**	**(3,770)**	$ 45,160	44,989	(171)

The Company continued its investment strategy of making longer-term investments to improve yields. Overall, investments increased from $45,160,000 to $71,453,000, as at December 31, 1999.

Bonds are purchased to form part of the Company's statutory liquidity requirements and corporate stocks are essentially the investment of the Company's shareholders' equity. The Investment Committee of the Board of Directors reviews and approves investment policies and transactions on a quarterly basis. The policies limit the size and type of investments in which the Company is able to invest.

The average holdings of bonds increased during the year, from $11.4 million in 1998 to $21.8 million in 1999 and at year-end, bond holdings stood at $23.9 million, compared to $12.3 million in 1998. Bond holdings are made up of federal and provincial government bonds of $22.2 million ($11.1 million in 1998) and corporate bonds of $1.7 million ($1.2 million in 1998). Gains or losses when selling bonds are dependent on prevailing interest rates at the time of sale. They can be held to maturity and redeemed at face value, or they can be sold at any time, resulting in a gain or loss depending on the

interest rate conditions at the time of redemption. It is the Company's intention to keep the bonds for liquidity purposes until maturity.

At December 31, 1999, the preferred stock portfolio consists of 88.3% of P1 and P2 rated stocks (87.8% in 1998). Preferred shares that are either retractable, convertible, exchangeable or have dividend rates that are fixed to a floating or resettable rate (in other words, the interest rate is not fixed) account for 90.1% of the preferred share holdings at year-end, compared to 88.0% in 1998.

At December 31, 1999, the preferred shares had a market value deficiency of $1,675,000, as compared to a market value surplus of $172,000 in 1998. The stock market ended 1999 on a negative note for stocks that were linked to interest rates. In a period of rising interest rates, preferred shares will decrease in market value, and the reverse is true in a period of falling interest rates. It is widely speculated that there will be increases in the U.S. prime rate to control inflationary pressures, with resultant increases in the Bank of Canada prime rate. In November 1999 the prime rate increased 25 basis points and it is expected that further increases will occur during 2000. Bonds and preferred shares have seen drops in their market value as a result. This market value decline also affected the mutual fund holdings because the majority of investments held with the mutual fund are preferred shares. At year-end, mutual funds had a market value deficit of $349,000 ($219,000 deficit in 1998).

In 1998, the common stock portfolio accounted for 4.8% of total investments, declining to 4.2% in 1999. Although the stock market has set records during fiscal 1999, the Company's investments in common shares are normally tied into the preferred stock portfolio, as the capital portion. The common stock portfolio had a market value deficit of $988,000 ($319,000 deficit in 1998). The common stock portfolio was particularly affected by its investments in the utilities and pipeline industry. Although negatively affected at year-end, it is believed that the steps taken by companies in which investments are held will see improvements during 2000. Upon review of the individual investments and discussion with our stock market advisors, it is management's belief that the deficiency is temporary.

Mortgage Portfolio

All mortgages are secured by real property, together with chattel mortgages and other types of collateral where appropriate. The increase in the size of the mortgage portfolio is due to the Company's expansion of its service area (all of Ontario south of Lakehead and western Canada), the strategic purchases of $84 million of mortgage portfolios and the continued overall buoyancy of the real estate market. The Company's strategy continues to be that of the alternative lender to major financial institutions in the residential first mortgage market.

At year-end 1999, residential mortgages accounted for 95.4% of the total mortgage portfolio, as compared to 96.9% in 1998. The remaining 4.6% in 1999 was made up of eleven (nine in 1998) other property types, the most significant being industrial properties, which represented 1.88% of the portfolio (largest was commercial of 1.3% in 1998). The remaining ten non-residential property types increased by $14.8 million in 1999 ($.8 million decline in 1998). During the year, the Company purchased $84 million of mortgage portfolios, the majority being from Clarica Life Insurance Company and CIBC Trust.

These mortgages were well-seasoned and the Company performed due diligence on each individual mortgage to ensure that the mortgages being purchased were less than 75% loan to value and not in arrears. Since the portfolios were being sold as a block, there was a commercial component to the $84 million purchase. Although the commercial component was a shift from the Company's core business strategy, it was felt that the benefit of increasing assets and the return generated on the portfolio outweighed the diversion from strategy. Of the $84 million purchase, $21 million or 25% was of a commercial nature. If these purchases were excluded from the above analysis, residential mortgages would have accounted for 98.3% and the other property types would have made up 1.7%, the largest being commercial, which would have made up 1.0%. The security priority of the mortgage portfolio increased slightly in 1999, whereby first mortgages represented 99.8% of the portfolio, as compared to 99.7% in 1998.

Canada Mortgage and Housing Corporation ("CMHC") mortgages amounted to $10.1 million in 1999 ($7.7 million in 1998), which represented 1.6% of the total mortgage portfolio in 1999 and 1998. This area of lending remains intensely competitive. The Company will continue to lend in this area when deemed prudent; however, it is anticipated that there will be limited growth in this area.

The Company's market area is now all of Ontario, south of the Lakehead area. The Company's strategic alliance with the Canadian Imperial Bank of Commerce generated 6% of the total mortgage advances during the year (7% in 1998). Subsequent to the year end, the Company entered into an agreement with Scotiabank for a pilot project in Ontario as their preferred alternative provider of residential first mortgages. Although these alliances supplement the Company's core business, the major source of business has been, and will continue to be, the mortgage broker network. It is expected that these alliances will account for approximately 10% of new business in 2000. The Company operated in Alberta and British Columbia during 1999. It was estimated in last year's annual report that the western provinces would account for 5% of the 1999 volume, and in fact they accounted for 5.3% of new mortgage advances. The Company has established a physical presence in both Calgary and Vancouver, and will begin accepting deposits in these branches in early 2000. The Company is now registered to do business in Saskatchewan, Manitoba, Prince Edward Island, Newfoundland, New Brunswick and Nova Scotia. We have already done lending in both Nova Scotia and New Brunswick, and expect to expand our presence in Halifax, Nova Scotia in 2000. It is estimated that the provinces, other than Ontario, will account for 10% of the new business in 2000. It is anticipated that the internal rate of growth in the mortgage portfolio experienced in Ontario over the past few years will continue through 2000.

Mortgage Reserves and Arrears Management

A loan is recognized as being impaired when the Company is no longer reasonably assured of the timely collection of the full amount of principal and interest. As a matter of practice, a loan is deemed to be impaired at the earlier of the date it has been specifically provided for or when it has been in arrears for 90 days. The Company continues to apply prudent and responsive policies to the management of impaired loans. At the core of these policies are the early identification of problem loans, the sale of properties in possession as quickly as possible and the provision of adequate reserves against potential loan losses that are known and general reserves for those that are unknown.

Impaired mortgages are summarized in the table below:

NET IMPAIRED LOANS (NILS)

FOR THE YEARS ENDED DECEMBER 31 (000'S)	1999	1998	1997	1996	1995
Impaired mortgages	$ 1,625	1,488	1,486	1,547	5,729
Specific mortgage reserve	292	245	531	455	1,269
Net non-performing mortgages	$ 1,333	1,243	955	1,092	4,460
Gross mortgage portfolio	$ 643,400	474,944	388,809	314,262	309,547
Net non-performing mortgages as a % of the gross mortgage portfolio	0.21%	0.26%	0.25%	0.35%	1.44%

Net impaired loans as a percentage of the total mortgage portfolio have decreased from 0.26% at December 31, 1998 to 0.21% at December 31, 1999. These ratios compare favourably with other large deposit taking financial institutions.

Loan Arrears

Early identification of delinquent accounts, coupled with prompt collection activities, is essential to minimizing the level of arrears and ensuring that these accounts are brought current. The Company considers a loan to be delinquent when either the principal or the interest is greater than 15 days in arrears. At that time, the collection department initiates procedures to collect payments. If acceptable repayment arrangements cannot be achieved prior to month-end, the Company's solicitor is instructed to initiate Power of Sale proceedings. At this point, the mortgage is referred to the Senior Manager Mortgage Services and is monitored by a group, which includes senior management. The Company also has established policies and procedures for the collection of shortfalls, and the Senior Manager Mortgage Services also monitors this. Along with the above review, the Board of Directors also reviews the loan arrears on a quarterly basis.

Total principal outstanding over 90 days was $1,506,000 as at December 31, 1999 compared to $1,488,000 one year ago. However, as a percentage of the total mortgage portfolio, this has decreased slightly from 0.31% at December 31, 1998 to 0.23% at December 31, 1999. The entire principal amount in arrears over 90 days was covered by the total allowance for losses by more than double, for the third consecutive year.

Loans in arrears are summarized below:

LOANS IN ARREARS

FOR THE YEARS ENDED DECEMBER 31 (000'S)	1999	1998	1997	1996	1995
90 to 180 days	$ 1,245	1,151	1,171	395	1,513
181 to 270 days	107	150	130	-	547
271 + days	154	187	-	-	2,923
	$ 1,506	1,488	1,301	395	4,983
Gross mortgage portfolio	$ 643,400	474,944	388,809	314,262	309,547
Allowance for loan arrears	$ 3,414	3,103	2,936	2,478	3,609
Arrears as a % of gross mortgage portfolio	0.23%	0.31%	0.33%	0.13%	1.61%
Allowance as a % of loan arrears > 90 days	226.69%	208.53%	225.67%	627.34%	72.43%

Allowance for Mortgage Losses

The Company is committed to maintaining prudent levels of reserves against foreseeable and unforeseeable future mortgage losses. The Company maintains reserves against specific mortgages, general reserves against vendor take back mortgages and general reserves against the remaining mortgage portfolio.

The continuity of the mortgage loss provision is as follows:

(000's)		Allowance for Mortgage Losses As at 12/31/98	Net Provisions During the Year	Net Write-offs During the Year	Allowance for Mortgage Losses As at 12/31/99
Specific reserve	$	245	336	289	292
General reserve-high ratio vendor take back mortgages		91	(81)	-	10
General reserve		2,767	345	-	3,112
Total	$	3,103	600	289	3,414

Specific Reserve

This is an identifiable reserve based on management's detailed review of the mortgage portfolio.
The reserve is based on current market values of the mortgaged properties, among other factors.

General Reserve - High Ratio Vendor Take Back Mortgages

High ratio vendor take back mortgages (VTBs) were used prior to December 31, 1992, as a financing tool on power of sale property sales. It continues to be the Company's strategy to reduce the amount of mortgages of this type. The high ratio VTB balance was $914,000 at December 31, 1998, and stood at $100,000 on December 31, 1999. This has resulted in a reduction of the general provision from $91,000 at December 31, 1998, to $10,000 at December 31, 1999.

General Reserve

The purpose of this reserve is to provide for potential future losses on currently performing mortgages. This reserve increased from $2,767,000 at December 31, 1998, to $3,112,000 at December 31, 1999. This reserve is approximately 49 basis points of the total mortgage portfolio (60 basis points in 1998) after deductions for insured mortgages and those mortgages that have specific provisions. Further details can be found in Note 3 to the Consolidated Financial Statements.

Senior Term Loan

On October 16, 1997, the Company entered into an agreement with Penfund Capital (No. 1) Limited, whereby Penfund provided a senior debenture, in the amount of $5 million, for a period of five years. On July 21, 1998, the Company received an additional $5 million under the same conditions as the original loan. Both loans bear interest at 8%. Principal is now repayable in yearly installments of $500,000, which began on October 16, 1998. This will continue for a period of three more years, with the balance being payable in full on October 16, 2002. The proceeds of this second loan were used to inject an additional $5 million of capital into Home Savings.

Deposits and Borrowings

Deposits and other borrowings increased by $191.5 million (or 38.8%) in 1999, compared to an increase of $93.9 million (or 23.5%) in 1998.

FOR THE YEARS ENDED DECEMBER 31 (000'S)	1999	1998	1997	1996	1995	% Increase 1999 v.s.1998	1998 v.s.1997
DEMAND							
Short-term certificates and savings	$ **50,726**	47,799	35,196	32,203	35,546	**6.1**	35.8
TERM							
Debenture investment certificates	**530,736**	365,251	287,475	220,559	220,821	**45.3**	27.1
Registered retirement savings plans	**103,407**	80,335	76,826	66,076	58,264	**28.7**	4.6
	634,143	445,586	364,301	286,635	279,085	**42.3**	22.3
TOTAL	$ **684,869**	493,385	399,497	318,838	314,631	**38.8**	23.5

The increase in deposits and borrowings was required to fund the increase in the mortgage portfolio ($168.2 million), the increase of cash and cash equivalents ($3.1 million) and the increase in investments ($26.3 million). The difference of $6.1 million was made up primarily of net income for the year ($8.1 million) less dividends paid of $0.9 million.

STANDARDS OF SOUND BUSINESS AND FINANCIAL PRACTICES

Home Savings is regulated under the Loan and Trust Corporations Act 1987 (Ontario). Beginning in 1995, Home Savings completed the self-assessment review and reporting program associated with the Canada Deposit Insurance Corporation ("CDIC") Standards of Sound Business and Financial Practices, and performs it on an ongoing basis. These standards are to ensure that institutions are managed in a sound and prudent manner. These standards cover liquidity management, interest rate risk management, real estate appraisals, securities portfolio management, credit risk management, capital management and internal control. The Board of Directors of Home Savings reviews all areas on a quarterly basis.

Liquidity

Home Savings is subject to liquidity requirements as defined under the Loan and Trust Corporations Act 1987(Ontario). Home Savings must maintain in liquid assets, as defined by the act, a minimum balance of 20% of borrowings that mature in the next 100 days. Home Savings' policy is to maintain a minimum balance of 22%. The liquid assets held are further restricted under the CDIC self-assessment policy and are reviewed quarterly by the Audit Committee and the Board of Directors for compliance to regulations and policies. Home Savings' statutory liquidity position, calculated in accordance with the applicable legislation, is summarized in the table on the following page.

STATUTORY LIQUIDITY POSITION

AS AT DECEMBER 31 (000'S)	1999	1998
LIQUID ASSETS FOR STATUTORY PURPOSES		
Eligible cash and short-term deposits	$ **20,115**	16,687
Eligible government bonds	**21,202**	11,202
	41,317	27,889
Statutory liquidity requirements	**22,670**	23,391
EXCESS STATUTORY LIQUIDITY	$ **18,647**	4,498

As at December 31, 1999, Home Savings' liquidity position was 36.5% of 100-day maturities (23.9% in 1998). The Company's liquid assets totaled $41.3 million or 5.6% of the Company's total assets at December 31, 1999, compared to $27.9 million or 5.2% at December 31, 1998. The liquidity position is higher than the Company would normally carry it, but as part of our Year 2000 contingency plan, we determined that we would carry this position in the 30 to 35% range in the event of a liquidity crisis. This amount has since been reduced to more traditional levels in the first few months of 2000.

Interest Rate Risk

Interest rate risk is the sensitivity of earnings to sudden changes in interest rates. The Company actively manages interest rate risk by employing a number of techniques. These include the matching of asset and liability terms and modeling techniques that measure changes in the portfolios and the impact interest rate changes will have on the Company's earnings capacity. The table on the following page illustrates the interest rate sensitivity position as at December 31, 1999. However, this table represents only a position in time, and the gap represents the difference between assets and liabilities in each maturity category. This schedule reflects the contractual maturities of both assets and liabilities, adjusted for assumptions regarding the effective change in the maturity date as a result of a mortgage becoming impaired and for off-balance sheet hedging positions.

As illustrated by the schedule, the effective net interest rate spread between assets and liabilities is 2.94% (3.12% in 1998), after the adjustments as noted above. The cumulative dollar gap, including off balance sheet items, at the end of twelve months (more liabilities maturing than assets) is $10.4 million ($15.9 million in 1998). The cumulative gap between cash, investments and mortgages less the senior loan, demand deposits and term deposits accounted for $3.9 million in 1999 ($10.7 million in 1998). The off balance sheet items gap, which is mortgage commitments less their related mortgage terms, accounted for $6.5 million in 1999 ($5.2 million in 1998). The cumulative gap in the three-plus year range is basically offset by shareholders' equity.

INTEREST RATE SENSITIVITY AS AT DECEMBER 31, 1999 (000'S)	Floating Rate Carrying Value	Floating Rate Effective Interest Rate	0 to 3 months Carrying Value	0 to 3 months Effective Interest Rate	3 to 6 months Carrying Value	3 to 6 months Effective Interest Rate	6 to 12 months Carrying Value	6 to 12 months Effective Interest Rate
ASSETS								
Cash and cash equivalents	$ 662	3.46%	14,467	4.68%			5,000	4.95%
Investments	6,259	4.85%	5,926	6.03%			3,150	5.44%
Mortgages			54,411	8.17%	53,513	8.22%	165,730	8.51%
Other assets								
	$ 6,921	4.72%	74,804	7.33%	53,513	8.22%	173,880	8.35%
LIABILITIES								
Senior term loan	$						500	8.00%
Demand deposits	80	0.26%	30,191	4.78%	8,859	4.85%	10,986	4.69%
Term deposits and other borrowings			65,519	4.99%	71,788	4.94%	125,120	5.29%
Other liabilities								
Shareholders' equity								
	$ 80	0.26%	95,710	4.92%	80,647	4.93%	136,606	5.25%
Gap before off-balance sheet items	6,841		(20,906)		(27,134)		37,274	
Off-balance sheet items	–		(13,821)	8.64%	–		7,325	9.71%
GAP AFTER OFF-BALANCE SHEET ITEMS	$ 6,841		(34,727)		(27,134)		44,599	
CUMULATIVE GAP	$ 6,841		(27,886)		(55,020)		(10,421)	

INTEREST RATE SENSITIVITY AS AT DECEMBER 31, 1999 (000'S)	1 to 3 years Carrying Value	1 to 3 years Effective Interest Rate	3+ Years Carrying Value	3+ Years Effective Interest Rate	Non-Interest Sensitive Carrying Value	Total Carrying Value	Total Effective Interest Rate
ASSETS							
Cash and cash equivalents	$				35	$ 20,164	4.70%
Investments	28,220	5.23%	27,348	5.63%	550	71,453	5.39%
Mortgages	268,411	8.29%	95,662	8.39%	2,259	639,986	8.32%
Other assets					6,532	6,532	0.00%
	$ 296,631	8.00%	123,010	7.78%	9,376	$ 738,135	7.86%
LIABILITIES							
Senior term loan	$ 8,500	8.00%				$ 9,000	8.00%
Demand deposits					609	50,725	4.71%
Term deposits and other borrowings	267,126	5.56%	85,932	5.74%	18,659	634,144	5.24%
Other liabilities					3,813	3,813	0.00%
Shareholders' equity					40,453	40,453	0.00%
	$ 275,626	5.64%	85,932	5.74%	63,534	$ 738,135	4.92%
Gap before off-balance sheet items	21,005		37,078		(54,158)		2.94%
Off-balance sheet items	5,167	8.95%	1,329	9.02%	–		
GAP AFTER OFF-BALANCE SHEET ITEMS	$ 26,172		38,407		(54,158)		
CUMULATIVE GAP	$ 15,751		54,158		–		

In addition to the above matching of assets and liabilities, the Company also employs an interest rate risk sensitivity model that measures the relationship between changes in interest rates and the present value of equity. Standards have been established whereby each major asset or liability decision must be assessed to determine standards compliance.

Real Estate Appraisals

A properly qualified independent third party appraiser appraises all properties. These appraisals are reviewed by both the underwriter and credit manager for completion, content and accuracy. In addition, either in-house personnel or a person designated by the company inspects each property.

Securities Portfolio Management

It is the intent of management to manage the securities portfolio and exposure to position risk. The Investment Committee meets on a quarterly basis to review the status of the portfolio, review transactions during the past quarter, ensure compliance under the Loan and Trust Corporations Act 1987 (Ontario) and determine compliance with the Company's Investment Strategy and Policy.

The Company has set out four criteria that must be met in the Investment Policy. The first criterion is that at least 80% of the total dollar value of the portfolio must be invested in P1 and P2 preferred stock and cash. As at December 31, 1999, this stood at 88.3% of the total portfolio (87.8% in 1998). The second criterion is that at least 60% of the total dollar amount of the portfolio must be shares that are either retractable, convertible, exchangeable or have a dividend rate that is fixed to a floating rate or is resettable. In other words, the interest rate is not permanently fixed. As at December 31, 1999, these types of investments accounted for 90.1% of the portfolio (88.0% in 1998). The third criterion is that the common share portfolio will not be more than 10% of the total portfolio. At year-end, common shares accounted for 4.1% of total investments (4.8% in 1998). The final criterion is that concentration in any individual company cannot be more than 15% or $1 million, whichever is greater, unless approved by the Investment Committee. At year-end, the maximum holding of any one company was 6.2% (8.2% in 1998).

Credit Risk Management

Credit risk management is the management of the credit risk associated with the total mortgage portfolio. This is the risk of the loss of principal and/or interest from the failure of debtors, for any reason, to honour the financial or contractual obligations to the Company. Senior management and the Audit Committee of the Board of Directors undertake extensive reviews of credit policies and lending practices. The Company's policy is that credit is approved by different levels of senior management based on the amount of the mortgage. In addition, all mortgages that are over $500,000 must be approved by the Chairman of the Audit Committee. Under the CDIC Standards of Sound Business and Financial Practices, the Audit Committee and the Board of Directors review quarterly the policies as established by the Company and the compliance of the credit risk.

Residential mortgages represent the largest component of the total mortgage portfolio, comprising 95.4% at December 31, 1999, compared to 96.9% at December 31, 1998. These loans are secured primarily by single family dwellings, which are owner occupied. Under the lending criteria, all mortgages are considered individually under a rating process and the level of risk is determined.

The Company's industrial, commercial and other property types represented 4.6% of the total mortgage portfolio at December 31, 1999 (3.1% in 1998), and management continues to monitor these properties on a regular basis. The increase in non-residential properties was a result of the mortgage purchases mentioned above. It is the Company's intention to continue to concentrate its core business on residential properties.

Capital Management

Capital is a key factor in assessing the safety and soundness of a financial institution. Capital assists in promoting confidence among depositors, creditors, regulators and shareholders. The Company maintains a capital management policy to govern the quantity and quality of capital held by Home Savings, the

regulated entity. The objective of the policy is to ensure that the regulatory capital requirements are met while providing a sufficient return to investors. This policy is designed to comply with the Standards of Sound Business and Financial Practices as established by CDIC. The policy is reviewed and approved quarterly by the Audit Committee and the Board of Directors.

Two capital standards are addressed in the Company policy: the provincial borrowing capacity and the risk-based capital ratio (BIS ratio). The risk-based capital ratio is reported quarterly and the borrowing ratios are reported monthly to the Board of Directors.

Borrowing Capacity

Home Savings is regulated under the Loan and Trust Corporations Act 1987 (Ontario). Home Savings' ability to accept deposits is limited by the Company's permitted borrowing ratio. This is defined as the ratio of deposits and other borrowings to capital and reserves and is adjusted by the excess liquid assets that are Home Savings' liquid funds in excess of regulatory requirements. The borrowing ratio is designed to protect depositors by limiting the extent to which the Company can lever its capital. Home Savings' maximum borrowing ratio is currently authorized at 17.5 times its capital and reserves.

The borrowing ratio is summarized in the following table:

BORROWING RATIO

AS AT DECEMBER 31 (000'S)	1999	1998	1997	1996	1995
Regulatory capital base	$ **43,443**	38,163	27,375	21,709	19,931
Maximum borrowing limit	**760,253**	667,853	479,063	379,908	348,793
Total borrowings	**684,869**	493,633	399,497	318,838	314,631
Unused borrowing capacity	$ **75,384**	174,220	79,566	61,070	34,162
Excess liquidity adjustment	**18,647**	4,498	6,245	4,679	7,918
Adjusted unused borrowing capacity	$ **94,031**	178,718	85,811	65,749	42,080
Actual borrowing ratio including excess liquidity	**15.3**	12.8	14.4	14.5	15.4

The Company is adequately capitalized to provide for projected double digit growth in the year 2000 and is also well positioned in terms of capital adequacy for CDIC as calculated in the new risk based premiums. In 1999, the Company purchased $84 million of mortgage portfolios from other financial institutions. If these purchases had not been completed, the Company would have generated the capital it required for internal growth through its retained earnings.

RISK-BASED CAPITAL RATIO (BIS RATIO)

The Bank for International Settlements ("BIS") published a framework to measure the adequacy of capital for internationally active banks in 1988, called the BIS ratio. The Office of the Superintendent of Financial Institutions ("OSFI") issued a similar guideline, entitled Capital Adequacy Requirements, which adopts the BIS framework. This guideline sets capital for federally regulated loan and trust companies. The Company has adopted this guideline under the policy of capital management even though Home Savings is provincially regulated. A company's capital ratio, as defined by the OSFI guideline, is the ratio of total eligible capital divided by the sum of its risk-weighted assets and risk-weighted off-balance sheet items.

The Company's total BIS ratio decreased to 11.57% from 13.82% in the previous year. The Tier 1 capital decreased from 10.33% in 1998 to 9.10% in 1999 and was attributable to the fact that the risk weighted

assets grew at a faster pace than the capital generated. In 1999, the capital generated consisted of the net income of Home Savings for the year. There was a significant change in 100% risk-weighted assets during the year, increasing from $66.7 million in 1998 to $123.5 million in 1999, an increase of $56.8 million. There were two major items that led to this increase: the stock portfolio increased by $14.8 million and the amount of 100% risk associated mortgages increased by $39.5 million. The increase in the mortgage portfolio is attributable to the mortgage portfolios that were purchased during the year. Stores and apartments increased by $16.4 million, apartments increased by $7.6 million, industrial buildings increased by $8.7 million and retail stores increased by $3.1 million.

RISK-BASED CAPITAL RATIO (BIS RATIO)

(Based only on the Subsidiary Home Savings & Loan)

AS AT DECEMBER 31 (000'S)

CAPITAL	1999	1998
Tier 1		
Shareholders' equity	**$ 36,839**	$ 29,594
Tier 2		
Eligible portion of subordinated notes issued by the Company	**10,000**	10,000
Total	**$ 46,839**	$ 39,594

RISK-WEIGHTED ASSETS	Balance Sheet Amount	Risk Weighted	**Risk Weighted Amount**	Balance Sheet Amount	Risk Weighted	Risk Weighted Amount
Cash and claims on or guaranteed by Canadian and provincial governments (including CMHC-insured mortgages)	$ 44,752	0%	**$ –**	$ 18,749	0%	$ –
Claims on banks and municipal governments	7,639	20%	**1,528**	16,686	20%	3,337
Conventional mortgages on owner-occupied residences	559,203	50%	**279,602**	432,995	50%	216,498
Other assets	123,535	100%	**123,535**	66,733	100%	66,733
Total assets	$ 735,129		**$ 404,665**	535,163		$ 286,568
Total off-balance sheet financial instruments			**–**			–
TOTAL			**$ 404,665**			$ 286,568

RISK-BASED CAPITAL RATIO (BIS RATIO)	1999	1998
Tier 1 capital	**9.10%**	10.33%
Tier 2 capital	**2.47%**	3.49%
TOTAL	**11.57%**	13.82%

Internal Control

The Company objective is to provide reasonable assurance that operations are efficient and effective, that the financial reporting is reliable and that the Company complies with all applicable laws and regulations. To this end, written policies and procedures relating to our business activities are in place, and these are reviewed annually by the Board. In addition, external auditors, government regulators and a third-party consultant review the internal controls. The Company has an internal auditor to ensure that the Company's growth is managed in a prudent manner. The internal auditor is held accountable directly to the Chairman of the Audit Committee. The internal auditor's role also complements the external audit functions, and, to this end, communication is carried on throughout the year with both the external auditors and the government regulators.

YEAR 2000

In 1998, the Company reported the steps that had been undertaken to ensure that it would be year 2000 compliant. All steps and testing were completed well in advance of the end of fiscal 1999. No untoward occurrences have been experienced as we entered the new millenium with our customers.

CURRENT ECONOMIC OUTLOOK

Home Savings is now registered to do business across Canada, excluding Quebec. The Company's market focus continues to be Ontario, however, it is expected that the volume of mortgage activity in British Columbia and Alberta will double in 2000, accounting for 10% of new business. The Canadian economy remains very strong. On an annual basis, GDP expanded 3.4% in 1999, up from 3.0% in 1998. Domestic strength coupled with continued growth in the U.S. economy and an improving world economy point to a healthy outlook for Canada for the next couple of years. GDP growth is expected to be 3.4% in 2000 and 3.2% in 2001.

The unemployment rate fell to 7.6% in December 1999 and is expected to decline further to 7.0% in 2000 and 6.7% in 2001. The inflation rate was 1.8% in the last quarter of 1999. It is expected to increase slightly to 2.1% in 2000 and 2.3% in 2001. It is anticipated that the Bank of Canada will likely raise interest rates in an orderly fashion during 2000 to keep the economy and inflation under control. This increase in interest rates should not have any effect on the Company's expectation for growth in 2000.

Ontario is expected to remain among Canada's top performers in 2000 due to above average job growth and migration to the province. Affordable mortgage carrying costs and good job prospects will keep the resale markets active. A record number of resale homes traded hands in 1999, and it is expected that resales will continue to rise. GDP growth in 1999 was estimated to be 4.5% (higher than the national average of 3.4%). It is expected to be 4.3% in 2000 and 4.1% in 2001. Housing starts are forecast to rise by 6.3% in Ontario in 2000, up from a record year of 67,000 starts in 1999.

The outlook for the Alberta economy is improving, as the province benefits from soaring energy prices. Housing starts are expected to decline by 1.3% during 2000, down from 25,500 starts in 1999. This reduction will result from an adjustment to Calgary's overheated multi-family market, which is expected to decline by 10%. Home Savings core business, in the single-family residential market, is expected to show modest gains of 3.2% in 2000 and 1.0% in 2001. The resale market is particularly strong and is characterized by steady demand, rising prices and sellers' conditions. The record set in 1997 of 43,700 resales is expected to be met in both 2000 and 2001. With unemployment expected to be in the 5.0% range, GDP growth is expected to improve from the 2.3% recorded in 1999 to 3.5% and 3.8% in 2000 and 2001, respectively.

In British Columbia, slow recovery from the Asian turmoil and low commodity prices should gather strength in 2000. The housing market has bottomed out and has begun to show signs of life. Housing starts in the 16,000 range should increase by 10.4% in 2000 and another 11.1% in 2001. There is a demand for housing and the resale market should strengthen as a result. Unemployment was 8.3% in 1999 and is expected to improve to 8.0% and 7.7% in 2000 and 2001, respectively. Net migration into the province is expected to increase from 21,500 in 1999 by 91% in 2000 and another 20% in 2001. In addition, the GDP should increase from 1.2% in 1999 to 2.0% in 2000, decreasing slightly to 1.5% in 2001.

The Halifax market in Nova Scotia should produce another year of strong housing markets. Housing starts will be up for the second year in a row (4,250 in 1999, increasing by 2.4% in 2000) and resales will turn in a performance second only to a record year in 1999. The unemployment rate will remain high (9.7% in 1999, expected to be 9.6% and 9.5% in 2000 and 2001, respectively), causing the GDP growth to decline from 3.4% recorded in 1999, to 2.5% in 2000 and 2.4% in 2001.

FUTURE OUTLOOK

The Company's balance sheet was further strengthened during 1999. Registration across Canada has solidified Home Savings' role as a national alternative for first residential mortgages. Internal growth during the year, aided by some mortgage portfolio acquisitions, has resulted in record growth in assets during the year. The Company has termed out its mortgages, resulting in the average maturity of mortgages moving from 1.8 years average maturity to 2.3 years. Whenever possible, the preference is to place mortgages for longer terms. The Company continues to match assets and liabilities to ensure that interest rate fluctuations will have little impact on future earnings. The strategy of the Company has not changed. High growth and high return, while maintaining low risk, will continue to be the focus. This can be achieved by following the strategies that are outlined below.

Growth

It is the Company's goal to achieve double digit growth in assets in 2000. This will be achieved through internal growth in Ontario and further expansion of the market in western Canada. We will begin to accept deposits in both Alberta and British Columbia during the year. The economic outlook is excellent for all provinces in Canada, including improving unemployment rates and growing housing markets. We have expanded our strategic alliances and will seek further alliances where practical.

The Alberta and British Columbia offices now have a physical presence and it is anticipated that they will contribute a minimum of 10.0% of total mortgage volume during the upcoming year. It is also anticipated that we will expand our presence during 2000 in Nova Scotia.

Return

It is the Company's goal to maintain a return on equity in the 20% range. Return on equity for fiscal 1999 was 21.8%. This return can be accomplished by maintaining the interest spread between assets and liabilities, achieving the projected growth in assets, maintaining impaired loans at reasonable levels and controlling expenses. The Company's productivity ratio in 1999 was 41.4%, and it is the Company's intention to maintain this in 2000.

Risk

The BIS ratio, although well in excess of regulatory standards, decreased during the year. The ratio decreased as a result of an increase in 100% risk weighted assets. There were two major items that increased the 100% risk weighted assets. The first was the acquisition of mortgage portfolios (which were well seasoned and performing) that had a non-residential component and the second was an increase in the Company's stock portfolio. The Company's core business, which is single family residential first mortgages, carries a 50% risk weighting. At December 31, 1999, first mortgages represented 99.8% (99.7% in 1998) of the portfolio, and residential mortgages represented 95.4% (96.9% in 1998) of the portfolio. In addition, net impaired loans have been maintained under 0.50% of the gross mortgage portfolio since 1996.

The Canadian economy is strong, including housing markets across the country. The Company is confident of the continued growth of its asset base and earnings. Based on projected earnings, the Company expects to fund anticipated growth through net income that is generated in 2000.

RESPONSIBILITY FOR FINANCIAL REPORTING

The Board of Directors has the ultimate responsibility for the financial statements presented to the shareholders. Management is responsible for the preparation of the financial statements, and all other information contained in the annual report. This includes maintaining a system of internal control to provide reasonable assurance as to the reliability of financial information and to protect the assets controlled by the Corporation.

An audit committee of independent directors reviews the financial statements in detail with management and reports their findings to the Board prior to their approval of results. The Ontario Ministry of Finance conducts an annual examination of the financial condition and affairs of the Corporation's principal operating subsidiary, Home Savings & Loan Corporation, which includes a review of the company's compliance with the terms of the Act under which it is incorporated. Shareholders' Auditors conduct an independent examination of the consolidated financial statements of the Corporation and report on the fairness of the statements.

Wm. A. Dimma

William A. Dimma
Chairman of the Board

John J. Ruffo

John J. Ruffo
Director and Chairman of the Audit Committee

AUDITORS' REPORT

To the Shareholders of **Home Capital Group Inc.**

We have audited the consolidated balance sheets of Home Capital Group Inc. as at December 31, 1999 and 1998 and the consolidated statements of income, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1999 and 1998 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in Canada.

Ernst & Young LLP

Ernst & Young LLP
Chartered Accountants

Toronto, Canada
February 4, 2000

CONSOLIDATED BALANCE SHEETS

AS AT DECEMBER 31	1999	1998
ASSETS		
Cash and Cash Equivalents	**$ 20,163,978**	$ 17,100,577
Income Taxes Receivable	**547,896**	-
Investments (Note 2)	**71,453,019**	45,159,934
Mortgage Loans (Note 3)	**639,986,336**	471,841,177
Fixed Assets (Note 4)	**639,395**	525,447
Goodwill, net of accumulated amortization	**2,509,828**	2,602,785
Deferred Agent Commissions	**2,280,230**	1,122,664
Other	**554,455**	523,131
	$ 738,135,137	$ 538,875,715
LIABILITIES		
Senior Term Loans (Note 5)	**$ 9,000,000**	$ 9,500,000
Deposits and Borrowings (Note 6)	**684,868,636**	493,385,830
Accounts Payable and Accrued Liabilities	**1,040,210**	1,045,768
Dividends Payable	**221,305**	-
Income Taxes Payable	**-**	520,677
Deferred Commitment Fees	**864,443**	629,558
Deferred Income Taxes	**1,687,686**	173,882
	697,682,280	505,255,715
SHAREHOLDERS' EQUITY		
Capital Stock (Note 7)	**18,591,224**	18,649,815
Contributed Surplus (Note 7)	**600,749**	902,524
Retained Earnings	**21,260,884**	14,067,661
	40,452,857	33,620,000
	$ 738,135,137	$ 538,875,715

See accompanying notes to the consolidated financial statements.

On behalf of the Board:

Gerald M. Soloway

Gerald M. Soloway
Director

John J. Ruffo
Director

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31	1999	1998
CAPITAL STOCK		
Balance at the Beginning of the Year	$ 18,649,815	$ 16,017,956
Convertible Debentures Exercised (Note 7)	-	2,274,000
Options Exercised (Note 7)	125,875	54,000
Warrants Exercised (Note 7)	-	400,000
Normal Course Issuer Bid (Note 7)	(184,466)	(96,141)
Balance at the End of the Year	$ 18,591,224	$ 18,649,815
CONTRIBUTED SURPLUS		
Balance at the Beginning of the Year	$ 902,524	$ 986,258
Reduction in Contributed Surplus (Note 7)	(301,775)	(83,734)
Balance at the End of the Year	$ 600,749	$ 902,524
RETAINED EARNINGS		
Balance at the Beginning of the Year	$ 14,067,661	$ 8,000,229
Dividends Paid and Declared During the Year	(666,580)	-
Dividends Declared During the Year	(221,305)	-
Net Income for the Year	8,081,108	6,067,432
Balance at the End of the Year	$ 21,260,884	$ 14,067,661

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31	1999	1998
INCOME		
Interest from Mortgage Loans	$ 44,528,838	$ 35,024,921
Other Interest	2,437,848	2,261,809
Dividends	2,229,405	1,587,221
Fees and Other Income	3,593,819	2,769,609
Gain on Sale of Investments	231,088	425,457
	$ 53,020,998	$ 42,069,017
EXPENSES		
Interest on Deposits and Borrowings	$ 30,233,713	$ 23,449,612
Salaries and Staff Benefits	4,124,573	3,279,776
Premises	611,264	716,900
General and Administration	4,693,192	3,908,945
	39,662,742	31,355,233
INCOME BEFORE LOSS PROVISION AND INCOME TAXES	13,358,256	10,713,784
Provision for Mortgage Losses (Note 3)	600,000	1,000,000
INCOME BEFORE INCOME TAXES	12,758,256	9,713,784
INCOME TAXES (Note 8)		
Current	3,163,344	3,079,830
Deferred	1,513,804	566,522
	4,677,148	3,646,352
NET INCOME FOR THE YEAR	$ 8,081,108	$ 6,067,432
NET INCOME PER CLASS A AND CLASS B SHARE FOR THE YEAR	$ 0.55	$ 0.46
FULLY DILUTED (Note 7)	$ 0.52	$ 0.39

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS IN CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31	1999	1998
OPERATING ACTIVITIES		
Net Income for the Year	$ **8,081,108**	$ 6,067,432
Add (Deduct) Items Not Affecting Cash:		
Deferred Income Taxes	**1,513,804**	566,522
Depreciation and Amortization	**267,603**	300,520
Amortization of Goodwill and Deferred Financing Costs	**145,819**	160,439
Provision for Mortgage Losses	**600,000**	1,000,000
Gain on Sale of Investments	**(231,088)**	(425,457)
	10,377,246	7,669,456
Interest Receivable	**(1,207,650)**	(709,248)
Interest Payable	**3,572,410**	3,667,107
Deferred Agent Commissions	**(1,157,566)**	(309,876)
Other Assets and Accounts Receivable	**(84,186)**	(171,611)
Accounts Payable and Accrued Liabilities	**(5,558)**	(54,993)
Dividends Payable	**221,305**	-
Income Taxes Payable	**(1,068,573)**	(302,872)
Deferred Commitment Fees	**234,885**	209,354
Cash Provided by Operating Activities	**10,882,313**	9,997,317
FINANCING ACTIVITIES		
Senior Term Loans	**-**	5,000,000
Repayment of Senior Term Loans	**(500,000)**	(500,000)
Net Increase in Deposits and Borrowings	**187,910,396**	90,221,344
Redemption of Convertible Subordinated Debentures	**-**	(2,274,000)
Issuance of Common Stock	**125,875**	2,728,000
Normal Course Issuer Bid	**(486,241)**	(179,875)
Dividends Paid	**(666,580)**	-
Dividends Declared	**(221,305)**	-
Deferred Financing Costs	**-**	(131,545)
Cash Provided by Financing Activities	**186,162,145**	94,863,924
INVESTING ACTIVITIES		
Activity in Investment Securities		
Purchases of Investments	**(37,647,423)**	(46,168,027)
Proceeds of Sales of Investments	**9,148,135**	28,613,279
Proceeds of Maturities	**2,582,076**	2,528,789
Activity in Mortgages		
Purchased Mortgages	**(84,039,693)**	(6,922,328)
Net Increase in Mortgages	**(83,700,596)**	(79,416,217)
Fixed Asset Purchases	**(323,576)**	(161,494)
Cash Used in Investing Activities	**(193,981,077)**	(101,525,998)
Net Increase in Cash and Cash Equivalents	**3,063,381**	3,335,243
Cash and Cash Equivalents at the Beginning of the Year	**17,100,577**	13,765,334
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	$ **20,163,958**	$ 17,100,577
SUPPLEMENTARY DISCLOSURE OF CASH FLOW INFORMATION		
Amount of interest paid during the year	$ **33,751,508**	$ 27,065,017
Amount of income taxes paid during the year	**4,622,107**	3,672,345

See accompanying notes to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada.

a) Principles of Consolidation

The consolidated financial statements of Home Capital Group Inc. (the "Company") include the accounts of the Company and its wholly owned subsidiary, Home Savings & Loan Corporation ("Home Savings"). All significant inter-company transactions have been eliminated.

b) Investments

Bonds and debentures are stated at amortized cost plus accrued interest. Common and preferred stocks are stated at cost except for retractable and convertible preferred stocks which are stated at amortized cost. Dividends are accrued when declared and included with the carrying value of the securities. Security gains or losses are reflected in net income as they are realized. When there is an other than temporary decline in value, a provision to cover estimated losses is recorded.

c) Mortgage Loans

Mortgages are carried at cost which includes amounts advanced, accrued interest, taxes and other charges less repayments, unamortized prepayments of mortgage interest and allowance for losses on loans.

d) Impaired Mortgage Loans

Impaired loans are accounted for on a basis under which a discounted cash flow approach or the fair value of any security underlying the loan net of any costs of realization is used to measure losses with respect to such loans.

(i) Recognition of Impairment

A loan is recognized as being impaired when the Company is no longer reasonably assured of the timely collection of the full amount of principal and interest. As a matter of practice, a loan is deemed to be impaired at the earlier of the date it has been specifically provided for or has been in arrears for 90 days.

(ii) Measurement of Impairment

An allowance for loan losses is maintained at an amount considered adequate to absorb all known and probable loan losses. The allowance consists of accumulated specific and general provisions. It is generally increased by these provisions, which are charged to income, and reduced by write-offs, net of recoveries. The allowance is deducted from the mortgage loans on the consolidated balance sheets. Specific allowances are calculated on a loan by loan basis. The carrying value of an impaired loan is reduced to its estimated realizable amount by discounting the expected future cash flows of the loan at its inherent rate of interest. Where the amount and timing of the future cash flows cannot be reasonably estimated, impairment is measured with respect to the value of the underlying security. The allowance is the difference between the loan's carrying value and its estimated realizable amount. General allowances are established for probable losses on loans whose impairment cannot otherwise be measured. These allowances are based on conditions in the general economy, in certain geographic locations, industries or groups of credits.

(iii) Income Recognition

Interest is accrued as earned until such time as the loan is recognized as impaired. At that time interest ceases to accrue and all previously accrued interest is reversed to zero.

e) Fixed Assets

Fixed assets, which are comprised of office equipment, computer equipment and signs are recorded at cost and depreciated over their useful life on a declining balance basis at the following rates:

Furniture and fixtures: 20%
Computer equipment: 30%
Signs: 20%

Leasehold improvements are amortized on a straight-line basis over a one and a half year period which is the remaining term of the lease.

f) Goodwill

Goodwill represents the excess of the purchase price over the fair value of net assets acquired and is being amortized on a straight-line basis over 40 years. On an ongoing basis, management reviews the valuation and amortization of goodwill, taking into consideration any events and circumstances which might have permanently impaired the fair value. The amount of goodwill impairment, if any, is measured based on projected undiscounted future operating cash flows.

g) Deferred Commitment Fees

Mortgage commitment fees are deferred and amortized over the term of the mortgage. The amortization of the commitment fee ceases when a property is taken into possession. The unamortized commitment fee is recognized when the property is sold.

h) Deferred Agent Commissions

Agent commissions on debenture investment certificates are deferred and amortized over the terms of the debenture investment certificates to which they relate.

i) Income Taxes

Income taxes are accounted for under the deferred method of income tax allocation whereby income taxes are fully provided for on reported income at the current tax rates. Where items are included in, or deducted from, reported income in different years than when reported on the Company's tax return, the tax effect of these differences is recorded on the consolidated balance sheet as deferred income taxes.

j) Market Value

Market value is determined by reference to quoted market prices or where not available, by discounting expected future cash flows at current rates.

2. INVESTMENTS

Investments consist of the following:

	1999		1998	
	Book Value	**Market Value**	Book Value	Market Value
Government of Canada Bonds	**$ 22,216,119**	**$ 21,202,000**	$ 11,095,162	$ 11,202,000
Canadian Corporate Bonds	**1,705,970**	**1,613,000**	1,197,196	1,066,000
Common Stock	**3,013,095**	**2,025,000**	2,353,219	2,034,000
Preferred Stock				
Fixed Rate	**38,237,125**	**37,062,000**	24,311,910	24,682,000
Floating Rate	**3,526,450**	**3,376,000**	3,500,877	3,522,000
Mutual Funds	**2,754,260**	**2,405,000**	2,701,570	2,483,000
	$ 71,453,019	**$ 67,683,000**	$ 45,159,934	$ 44,989,000

Government of Canada bonds have maturities ranging from nine months to nine years and five months, Canadian corporate bonds have maturities ranging from two years and one month to eight years and six months and preferred stocks have retraction dates ranging from two months to eight years and six months. On December 31, 1999 the Government of Canada bonds have a weighted average yield of 5.25% (December 31, 1998 of 5.28%), the Canadian corporate bonds have a weighted average yield of 5.74% (December 31, 1998 of 5.32%) and fixed rate preferred stock have a weighted average yield of 5.66% (December 31, 1998 of 5.89%).

The market value of the preferred stock is not necessarily indicative of their value as those stocks are substantially matched against deposits and therefore, can be held to the redemption or retraction date. Other bonds and stocks have not been written down because the market shortfall is considered to be temporary.

Short-term deposits which have maturities not exceeding 90 days are classified as cash equivalents.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

3. MORTGAGE LOANS

Mortgage loans are comprised of 99.8% first mortgages and 0.2% second mortgages (December 31, 1998 of 99.7% and 0.3%). These mortgages are primarily residential and the majority are located in central and southern Ontario. Mortgages are normally extended for a term ranging from one to five years.

	1999	1998
Gross mortgage loans are comprised of the following:		
Residential Mortgages	**$ 613,938,335**	$ 460,262,616
Commercial Mortgages	**7,425,962**	6,140,121
Other Non-Residential Mortgages	**22,035,806**	8,541,016
	643,400,103	474,943,753
Allowance for Losses		
Balance at the Beginning of the Year	**3,102,576**	2,936,408
Provisions for the Current Year	**600,000**	1,000,000
Write-offs during the Current Year	**(288,809)**	(833,832)
Balance at the End of the Year	**3,413,767**	3,102,576
Net Mortgage Loans	**$ 639,986,336**	$ 471,841,177

On December 31, 1999, the Company's mortgage portfolio was comprised substantially of fixed rate mortgages with an average duration of 2.3 years (December 31, 1998 of 1.8 years) and a weighted average yield of 8.35% (December 31, 1998 of 8.34%). On December 31, 1999 the portfolio had an approximate fair value of $644,855,000 (December 31, 1998 of $485,613,000). Impaired loans as at December 31, 1999 amounted to $1,624,780 (December 31, 1998 of $1,488,111). The average balance of impaired loans during the year ended December 31, 1999 amounted to $2,142,694 (December 31, 1998 of $1,902,279).

4. FIXED ASSETS

Fixed assets consist of office equipment, computer equipment, signs and leasehold improvements:

	1999	1998
Cost	**$ 2,372,072**	$ 2,049,105
Accumulated Depreciation and Amortization	**1,732,677**	1,523,658
Net Book Value	**$ 639,395**	$ 525,447

5. SENIOR TERM LOANS

On October 16, 1997, the Company entered into an agreement with Penfund Capital (No. 1) Limited ("Penfund"), whereby Penfund provided a senior debenture of $5,000,000 for a period of 5 years. On July 21, 1998, the Company received a further $5,000,000. The terms of the second senior debenture are the same as the agreement entered into on October 16, 1997, and are as follows:

i) the outstanding principal shall be repaid in yearly installments of $500,000 commencing on October 16, 1998 for a period of three years. The balance of the loan, together with all accrued and unpaid interest, is due and payable in full on October 16, 2002;

ii) interest is payable at 8% per annum; and

iii) as collateral for the senior term loan, the Company has provided a promissory note, a general security agreement, a pledge of all the issued and outstanding shares in the capital of Home Savings, and an assignment of all subordinated notes issued to Home Savings.

The fair market value of the senior term loans approximates its carrying value.

6. DEPOSITS AND BORROWINGS

Deposits and borrowings consist of certificates of deposit, 7.4% (December 31, 1998 of 9.7%), debenture investment certificates, 77.5% (December 31, 1998 of 74.0%), registered retirement savings plan certificate investments, 15.1% (December 31, 1998 of 16.3%) and savings accounts.

Certificates of deposit are short-term instruments maturing within one year of the date of issue and bear an average interest rate of 4.78% (December 31, 1998 of 4.81%). The balance outstanding as at December 31, 1999 is $50,725,968 (December 31, 1998 of $47,799,230).

Debenture investment certificates are issued for terms from one to five years from the date of issue. These certificates bear an average interest rate of 5.38% (December 31, 1998 of 5.23%). The balance outstanding as at December 31, 1999 is $530,735,415 (December 31, 1998 of $365,251,256).

Registered retirement savings plan certificate investments are issued for terms from one to five years from the date of issue. These certificates bear an average interest rate of 5.46% (December 31, 1998 of 5.41%). The balance outstanding as at December 31, 1999 is $103,407,253 (December 31, 1998 of $80,335,344).

The fair value of all of the deposits and borrowings amounted to approximately $691,824,000 as at December 31, 1999 (December 31, 1998 of $505,489,000). The book value amounted to $684,868,636 as at December 31, 1999 (December 31, 1998 of $493,385,830).

7. CAPITAL STOCK

a) Authorized

An unlimited number of convertible Class 'A' shares.
An unlimited number of Class 'B' subordinated voting shares.
An unlimited number of Class 'C' non-voting shares.
An unlimited number of preferred shares, issuable in series, to be designated as senior preferred shares.
An unlimited number of preferred shares, issuable in series, to be designated as junior preferred shares.

The convertible Class 'A' shares have five votes each. These shares are convertible at any time into Class 'B' subordinated voting shares on the basis of one Class 'B' subordinated voting share for each convertible Class 'A' share. In all other respects, these Class 'A' shares rank pari-passu with Class 'B' subordinated voting shares.

b) Issued

	Number of Shares	**1999**	Number of Shares	1998
Class 'A' shares	**3,025,000**	**$ 1,390,000**	3,025,000	$ 1,390,000
Options exercised	**-**	**-**	-	-
	3,025,000	**1,390,000**	3,025,000	1,390,000
Class 'B' subordinated voting shares	**11,758,995**	**17,259,815**	9,090,495	14,627,956
Debentures exercised	**-**	**-**	2,274,000	2,274,000
Options exercised	**95,500**	**125,875**	60,000	54,000
Warrants exercised	**-**	**-**	400,000	400,000
Normal course issuer bid	**(125,800)**	**(184,466)**	(65,500)	(96,141)
	11,728,695	**17,201,224**	11,758,995	17,259,815
Total stated capital		**$ 18,591,224**		$ 18,649,815

c) Normal Course Issuer Bid

On October 19, 1998 the Company filed a Normal Course Issuer Bid which allows the Company to purchase over a twelve month period up to the greater of (i) 5% of the issued and outstanding shares on October 19, 1998, or (ii)10% of the public float outstanding on October 19, 1998. This was renewed on October 27, 1999 for a further twelve month period. This renewal allows the Company to purchase up to 5% of the outstanding Class 'B' subordinated voting shares outstanding as of October 27, 1999 over this twelve month period.

During the year, 125,800 shares were purchased (65,500 in 1998). The cost of the shares was allocated as follows: (i) share capital was reduced by the average per share amount on the transaction date, which amounted to $184,466 ($96,141 in 1998); (ii) the excess was applied to contributed surplus, which amounted to $301,775 ($83,734 in 1998).

d) Stock Options

Options outstanding and granted to directors, executives and employees of the Company are as follows:

	Class 'A'	Class 'B'
As at December 31, 1998	-	901,500
Issued	-	55,000
Exercised	-	(95,500)
As at December 31, 1999	-	861,000

The Company's stock plan (the "Plan") was approved by the shareholders of the Company on December 31, 1986. The Plan was amended effective December 31, 1995 to conform the Plan to the TSE's Revised Policy on Listed Company Share Incentive Arrangements. Under the amended Plan, the maximum number of Class 'B' subordinated voting shares that may be issued under the Plan as amended is 1,151,450 representing approximately 10% of the aggregate number of Class 'A' shares and Class 'B' subordinated voting shares, respectively, which were issued and outstanding as of October 22, 1997. The exercise price of the options shall be fixed by the Board of Directors at the time of issuance at the "market price" of such shares subject to all applicable regulatory requirements. The market price per share shall not be less than the weighted average price at which the Class 'B' shares of the Company have traded on the Toronto Stock Exchange during the two trading days immediately preceding the date on which the option is approved by the Board. The period of exercise of any option will not extend beyond a period of ten years from the date of grant of the option. The period within which an option or portion thereof may be exercised by a participant will be determined in each case by the Board.

As at December 31, 1999, stock options outstanding to acquire Class 'B' subordinated voting shares were as follows:

Options granted to:	Number of Shares	Per Share $	Expiry Date
DIRECTORS	115,000	0.75	7/25/01
	30,000	3.20	11/20/02
	15,000	3.93	5/26/04
	15,000	4.00	10/20/04
	12,500	4.34	4/21/04
	187,500		
EMPLOYEES	76,000	0.75	7/25/01
	550,000	2.55	10/22/02
	35,000	3.20	11/20/02
	12,500	4.34	4/21/04
	673,500		
TOTAL	861,000	2.30	

e) Fully Diluted Earnings per Share

For the purpose of calculating fully diluted earnings per share, the following assumption has been made: if the stock options granted to directors, executives and employees of the Company had been exercised when granted and the proceeds were invested at an average rate of 4.71% per annum, this would have resulted in interest earned of $88,144. The net amount of $48,814 ($88,144 net of $39,330 income taxes) has been added back in the calculation of fully diluted earnings.

8. INCOME TAXES

	1999	1998
Income before income taxes	**$ 12,758,256**	$ 9,713,784
Income taxes at statutory combined Federal and Provincial rate	**$ 5,692,734**	$ 4,334,290
Increase (Decrease) from statutory rate resulting from:		
Dividend income	**(994,761)**	(708,218)
Capital gains	**(103,764)**	-
Goodwill amortization	**41,477**	41,477
Other	**41,462**	(21,197)
	$ 4,677,148	$ 3,646,352

Capital losses totaling $2,691,000 are available to reduce capital gains in future years. The future tax benefits arising from application of these losses have not been reflected in the consolidated statements of income and retained earnings.

9. MORTGAGE COMMITMENTS

Outstanding commitments for future advances on mortgages with terms of one to five years amounted to $13,821,579 as at December 31, 1999 (December 31, 1998 of $14,261,536). The commitments remain open until February, 2000 and November, 1999 for the prior year. The average rate on mortgage commitments was 9.36% (December 31, 1998 of 8.61%). The fair value of the commitments amounted to approximately $13,911,756 as at December 31, 1999 (December 31, 1998 of $14,720,600).

10. LEASE COMMITMENTS

Contractual obligations in respect of operating leases as at December 31, 1999 are as follows:

2000	$ 335,240
2001	331,572
2002	191,420
2003	112,220
2004	112,220
2005 and subsequent years	190,077
	$ 1,272,749

11. UNCERTAINTY DUE TO THE YEAR 2000 ISSUE

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems, which use certain dates in 1999 to represent something other than a date. Although the change in date to the year 2000 has occurred, it is not possible to conclude that all aspects of the Year 2000 Issue that may affect the Company, including those related to customers, suppliers, or other third parties, have been fully resolved. As at February 4, 2000, no problems have arisen as a result of the Year 2000 Issue.

12. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 1999 consolidated financial statements.

CORPORATE DIRECTORY

HOME CAPITAL GROUP INC.

Directors

John M. Christodoulou [1,2]
Chairman and Chief Executive Officer
Guardian Capital Group Ltd.
Toronto, Ontario

Hon. William G. Davis [1]
P.C., C.C., Q.C.
Counsel
Torys
Toronto, Ontario

William A. Dimma [1,3,4]
Corporate Director
Toronto, Ontario

Kenneth A. Fowler [1,4]
President,
Ken Fowler Enterprises Ltd.
St. Catharines, Ontario

Harvey F. Kolodny [1,2,3]
Professor of Management
Rotman School of Management
University of Toronto
Toronto, Ontario

John M. E. Marsh [3,4]
Corporate Director,
Port Colborne, Ontario

Sheila L. Ross [1,3]
Partner
TMP Worldwide Executive Search
Toronto, Ontario

John J. Ruffo [1,2,3,4]
Corporate Director
Toronto, Ontario

Gerald M. Soloway [2,4]
President and Chief Executive Officer
Home Capital Group Inc.
Toronto, Ontario

(1) Member of the Audit Committee

(2) Member of the Investment Committee

(3) Member of the Human Resources and Nominating Committee

(4) Member of the Executive Committee

Committees

Audit Committee
John J. Ruffo
Chairman

Investment Committee
Harvey F. Kolodny
Chairman

Human Resources and Nominating Committee
Sheila L. Ross
Chairman

Executive Committee
Gerald M. Soloway
Chairman

Officers

William A. Dimma
Chairman of the Board

Gerald M. Soloway
President and Chief Executive Officer

W. Roy Vincent
Senior Vice President and Chief Operating Officer

Gary L. Guthro, C.A.
Vice President, Finance

Sharron I. Hatton
Corporate Secretary

Cathy A. Sutherland, C.A.
Controller

ANNUAL MEETING NOTICE

The Annual Meeting of Shareholders of Home Capital Group Inc. will be held in Ballroom B of the Crowne Plaza Toronto Centre, 225 Front Street West, Toronto, Ontario on Wednesday May 24, 2000 at 11:00 a.m. local time. Shareholders and guests are invited to join Directors and Management for lunch and refreshments following the Annual Meeting. All shareholders are encouraged to attend.

HOME TRUST COMPANY

Directors

Hon. William G. Davis, P.C., C.C., Q.C.
William A. Dimma
Kenneth A. Fowler
Harvey F. Kolodny
John M.E. Marsh
Sheila L. Ross
John J. Ruffo
Gerald M. Soloway
W. Roy Vincent

Officers

Gerald M. Soloway
Chairman, President and Chief Executive Officer

W. Roy Vincent
Senior Vice President and Chief Operating Officer

Gary L. Guthro, C.A.
Vice President, Finance

Sharron I. Hatton
Corporate Secretary

Cathy A. Sutherland, C.A.
Controller

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Branch Manager

Brad Hamilton
Manager, Mortgages

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James Appleyard
Vice President, Business Development

Nick Kyprianou
Vice President, Mortgage Lending

Brian Stewart
Vice President, Mortgage Development

Mal Nuzum
Manager, Credit

Jan Morrison
Senior Manager, Mortgage Services

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Dan Boyda
Sr. Manager, Mortgages

Cathy Swallow
Manager, Mortgages

Memberships

Trust Companies Association of Canada

The Institute of Canadian Bankers

Canada Deposit Insurance Corporation

Home Capital Group Inc.

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Auditors

Ernst & Young LLP
Chartered Accountants
Toronto, Ontario

Banker

Home Capital Group Inc.
Home Trust Company
Bank of Montreal,
St. Catharines

Corporate Counsel

Home Capital Group Inc.
Home Trust Company
Torys *and*
Gowling Strathy & Henderson

Transfer Agent

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Stock Listing

Toronto Stock Exchange
Ticker Symbol: HCG.B

Capital Stock

As at December 31, 1999, there were 3,025,000 Class A and 11,728,695 Class B shares outstanding

For shareholder information, please contact:

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Corporate Secretary

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MISSION STATEMENT

Home Capital Group Inc. exists to benefit its shareholders through the pursuit of above average returns over the long term and with a minimum of risk. This goal is pursued by positioning Home Capital's wholly owned subsidiary, Home Trust Company, as the first choice alternative provider of residential first mortgages in Canada. The Company's business activity is focused on a unique niche in the marketplace: the provision of residential first mortgages to the self-employed, owners of small businesses, and other consumers whose specific needs are not addressed by larger, traditional financial institutions.

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